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mentation of the IMF conditions will topple the government. The IMF's refusal to bargain with even this "moderate" Peruvian faction indicates that the IMF and the banks are intent on making Peru a Pinochet-style "example" for the entire Third World.

Egypt, with a total foreign debt outstanding of $20 billion, is a debt domino which the banks cannot allow to fall for both financial and military-strategic reasons.

The meeting of the Consultative Group for Egypt (creditors' group) in Paris last week, therefore, agreed to debt-refinancing, including a $1 billion cash loan from other Arab countries, Arab roll-over of one and one-half billion dollars in deposits at the Egyptian central bank, and a $900 million U.S. government loan. However, not a cent was made available for the industrial investment program envisioned under Egypt's Five-Year Plan; and, in fact, Egypt had requested at least $5 billion for 1977. Asked if Egypt would be hard-pressed to meet debt obligations due to its failure to raise the full $5 billion in Paris, a World Bank official said: "No, it merely means delaying projects, postponing investment, cutting consumption, and rolling over debt.... The January riots merely showed what the limits are to cutting consumption, they are going to have to cut investment instead."

Carter Sells Protection to U.S. Business

BUSINESS OUTLOOK

In return for business support for policies which clearly mean the demise of technologically-advanced U.S. industry and agriculture, the Administration is holding out to business the promise of protectionist trade measures, future government contracts, and other "special deals."

As part of this ploy, the Carter Administration last week successfully persuaded Japanese manufacturers of color television sets to "voluntarily" cut their exports to the U.S. by more than 40 percent over the next three years, setting the precedent for steel, auto, and shipbuilding — Japan's three largest export sectors. This "orderly marketing agreement" was worked out by Carter's special trade negotiator, Robert Strauss, as the "preferable" alternative to the International Trade Commission's recommendation that Carter *quintuple* present tariffs on the T.V. sets.

Strauss will no doubt repeat this routine during his tour of the major foreign capitals this summer. The goal of that trip is to turn the stalled Geneva trade talks into a forum for carving up world markets via "orderly marketing agreements" — cartel arrangements.

In the T.V. case, the Justice Department is acting now to make sure the Japanese don't try to get around the new agreement by establishing more plants in the U.S. (the agreement exempts T.V. sets in which U.S. workers account for at least 40 percent of the labor). At recent oversight hearings of Senator Edward Kennedy's Antitrust subcommittee, it came out that the Justice Department is looking into the antitrust aspects of Japanese acquisition of American T.V. companies. Shortly after those hearings, William Shenefield, the new head of the Antitrust Division of Justice, met with American producers to assure them that the Administration supported their protectionist sentiments.

Zenith Corporation's own suit against the T.V. imports is still pending, while last month's customs court ruling in favor of Zenith is being appealed. The Zenith suit demands the imposition of countervailing duties on electronics goods, including T.V. sets, to offset rebates of domestic taxes provided by the Japanese government on exports.

There is increasing speculation among industry sources that the leading U.S. steel companies which have been most vocal about Japanese imports are conciliating the Administration — moderating steel price increases and supporting Carter's energy conservation program through the Pittsburgh-based Project Pacesetter — in the hopes that Strauss and other Carter emissaries will work out a system of cartel arrangements for the world steel industry. After initial resistance, the Japanese have agreed to participate in informal talks in Geneva on the "problems of world steel."

Speaking to the United Autoworkers' convention in Los Angeles last week, Carter said he would not impose quotas on auto imports. Carter confined his comments to telling autoworkers that they have to increase their productivity to make U.S. autos competitive with imports. However, many auto industry observers think it's only a matter of time before Carter lowers the boom on Japanese auto exports to the U.S. The Japanese, in fact, are expecting this to happen shortly and are stepping up their exports to the U.S. while they can. Most dramatically, Honda Motor's shipments of autos to the U.S. in the first quarter rose 60 percent above last year, another record year, while its retail sales soared 109 percent above last year.

With overall auto sales in the U.S. trailing off from first quarter levels, U.S. auto manufacturers may be the next to call for Carter's protection.

Businesses Try to "Adjust"

The Federal Energy Agency and the Commerce Department have jointly been holding "energy management conferences" with trade associations and representatives of member companies since 1974 to prepare for Carter's "conservation" program. Businessmen get together with conservation experts at these sessions to talk about their energy problems and work out energy savings plans.

Under this kind of guidance industries have been diverting billions of dollars into R and D on energy effi-

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ciency and energy saving devices for the last few years, while capital spending plans have been halted. Koppers Corporation, for example, is building a new chemical processing plant which consumes 40 percent less energy than an older plant and produces the same output. But Koppers' capital-goods producing divisions are bearing the brunt of that commitment to zero-growth, "energy efficient" industry in the form of its dwindling orders for steel blast furnaces and other capital goods.

Allied Chemical, Atlantic Richfield, and General Motors are among the financial backers of the new MIT study, "Energy: Global Prospects 1985-2000," which predicts a grave danger of an oil shortage in the 1980s and makes recommendations almost identical to Carter's energy package. General Motors is feeling confident that it will benefit from Carter's energy program, being in the best financial position of its competitors to make the change over to "fuel-efficient" small cars.

In fact, the Federal Trade Commission, the government agency which monitors impediments to competition within industry, is well aware that one of the effects of the Carter energy program will be the elimination of smaller businesses which can't "adjust." Michael Pertschuck, the new FTC chief, has just established a taskforce within the FTC to study precisely such questions. A member of the taskforce and of the FTC's Bureau of Competition told NSIPS last week that any government efforts to protect smaller corporations will probably not succeed. "I don't think the government is going to protect the status quo," he said. "Some companies will be able to adjust better than others, some will be hurt more than others... but it's too much to ask for government to protect smaller businesses — and that is not necessarily good in terms of the necessary allocation of resources. In some cases the process will be particularly harsh."

Saudis, Japan Under Pressure To Join IMF Bailout

FOREIGN EXCHANGE

Strong indications appeared this week that two reluctant financial powers, Saudi Arabia and Japan, have come under extreme pressure to cooperate with the International Monetary Fund's proposed $16 billion special facility for countries with large payments imbalances. As of the April 28 meeting of the International Monetary Fund's Interim Committee in Washington, D.C., both countries indicated unwillingness to contribute to the facility, which top U.S. officials think is essential if the monetary system is to get through 1977.

Knowledgeable Mideast specialists and banking sources in New York, Washington, London, and Zurich identified last week's explosion in Saudi Arabia Ghawar oil fields as a terror operation run through Zbigniew Brzezinski's National Security Council, with the objective of forcing the Saudis to put across large sums of money to stabilize the international banking system. This view was reinforced early in the week of May 16, when large Saudi long-term deposits began to appear on the Eurodollar market. At least several hundred million dollars have been placed in the form of five to seven year maturity, $50 million denomination Certificates of Deposit, written by leading Eurodollar banks. Euro-CD traders report interest rates on this paper, which is extraordinary, far below market rates, allowing the banks an arbitrage margin of about 1 percent with the three-month deposits market.

Until now virtually all Saudi money had been kept in deposits of three month maturity or less. Saudi and Federal Reserve sources agree on this version of what happened: from some time before David Rockefeller's March visit to Riyadh, the leading New York international banks and some other leading institutions virtually boycotted large Arab three-month deposits, in a game of "chicken" intended to force the Saudis and others to put their money into longer maturities. Rockefeller made this demand to the Saudi leadership, and was rebuffed out of hand. Instead of placing excess funds in bank deposits, the Saudis invested heavily into U.S. short-term Treasury securities during the first quarter, contributing significantly to the unexpected $4 billion run-up in foreign holdings of U.S. government debt, and in the Eurobond market, aiding the huge expansion of that market during the first quarter from a previous average issue volume of $1 billion or less per month, to $3 billion during the single month of April.

However, there are strong indications that this situation has been reversed, and that the big oil fire at Ghawar terrified the Saudis into accepting the banks' terms. This flow of long-term deposits has a marginally significant impact on the overall financial situation.

There is no sign, however, of precisely what the Saudis will do about the IMF facility itself; IMF managing director Johannes Witteeveen demanded a $5-6 billion contribution, several times the amount the Saudis have expressed willingness to contribute.

There is some blunt admission of what the means of persuasion are circulating in respectable press sources. For example, the current issue of the London publication *International Currency Review* has printed a scenario reminiscent of Paul Erdman's bestseller, ***The Crash of '79***. According to this scenario, the Ford Administration made a deal with the Saudis under which they would agree to maintain a relatively stable oil price and place half their funds in the form of long-term investments in the United States. Otherwise, the *ICR* story says, the United States would use its in-place capabilities in the Gulf to foster "domestic opposition" to the current Saudi leadership, or employ some other form of military capability against it.

Although this particular story contains some pretty fanciful elements, its appearance at this time indicates